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March 17, 1997

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OFFICE OF SECRETARY

BY HAND DELIVERY

Mr. William Caton
Office of the Secretary
Federal Communications Commission
1919 M Street, Room 222
Washington, D.C. 20554

Re: In the Matter of the Merger of MCI
Communications Corporation and British
Telecommunications plc, GN Docket No. 96-
245

Dear Mr. Caton:

Please find enclosed for filing the original and four copies of the Reply Comments of BellSouth Corporation, Pacific Telesis Group, and SBC Communications. Additionally, a copy of the reply comments are provided on electronic diskette.

Please return to the messenger the extra copy enclosed for date-stamp.

Sincerely,

Michael K. Kellogg/gmk

Michael K. Kellogg

Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
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OFFICE OF SECRETARY

In the Matter of

The Proposed Merger of MCI
Communications Corporation and
British Telecommunications plc

GN Docket No. 96-245

To: The Federal Communications Commission

**REPLY COMMENTS OF
BELLSOUTH CORPORATION, PACIFIC TELESIS GROUP,
AND SBC COMMUNICATIONS INC.**

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The United States, through the World Trade Organization Basic Telecommunications Services Agreement, has invited foreign competition into the international and domestic long-distance markets.¹ Yet, seven U.S. companies — the Bell companies — are excluded from providing the very same services. This situation exists despite the fact that Bell companies are better positioned to introduce competition into interexchange markets than foreign entrants, and more likely to invest their revenues in this country. No other country in the world places comparable restraints on its domestic telecommunications carriers.

In our initial comments, we pointed out that if the Commission were to approve the merger of MCI and BT as consistent with the public interest, it also must find that Bell company interLATA entry will serve the public interest.² This is true because (i) the benefits of allowing new, domestic competitors to augment interLATA competition exceed those of allowing a foreign carrier to acquire an existing U.S. provider, and (ii) the risks of permitting Bell company entry — subject to interconnection requirements and competitive safeguards that exceed those in the United Kingdom — are less than the risks associated with BT's own vertical integration. In their reply comments, MCI and BT do not rebut, but rather confirm these points. Indeed, the applicants' principal argument — that hard evidence of effective regulation and market experience disproves opponents' speculation about future misdeeds — applies with even greater force in the section 271 context.

¹ World Trade Organization Basic Telecommunications Services Agreement (Feb. 15, 1997).

² Comments of BellSouth Corporation, Pacific Telesis Group, and SBC Communications Inc. (FCC filed Jan. 24, 1997) ("Comments").

I. THE APPLICANTS' FURTHER ARGUMENTS THAT THEIR MERGER WILL SERVE THE PUBLIC INTEREST SUPPORT A COMMISSION FINDING THAT BELL COMPANY INTERLATA ENTRY WILL ALSO SERVE THE PUBLIC INTEREST

As in their Application, MCI and BT stress in their reply that misconduct by the merged entity is not possible because the British licensing regime and regulatory structure "have fully opened [BT's] telecommunications business" to effective competition, and "a comprehensive set of UK and EU competitive safeguards . . . protect new entrants against potential abuses of market power and anti-competitive practices."³ MCI and BT argue that "no basis exists" to support the claims of competitors who "merely speculate about what could go wrong" because "OFTEL has in place a comprehensive regulatory program." BT/MCI Reply at 13. MCI and BT object vehemently to proposals that they should be subjected to additional "structural, accounting and reporting requirements" — beyond those imposed by U.K. regulators — labeling such duties "burdensome and unnecessary." BT/MCI Reply at 22-23.

Yet, as MCI is well aware, the Bell companies already face regulatory burdens that far exceed those that MCI and BT insist are sufficient for themselves. Indeed, the restrictions that apply to Bell companies under sections 251, 252, 271 and 272 of the 1996 Act exceed even those that commenters in this proceeding seek to impose upon a merged BT/MCI.

While the BT/MCI reply points out that "BT is required by the terms of its License to interconnect its network with those of other individually licensed carriers," BT/MCI Reply at 12 n.26, this only highlights the more extensive requirements imposed upon Bell companies — not just to interconnect with competitors, but to provide unbundled access to the elements of their

³ See British Telecommunications PLC and MCI Communications Corp., Opposition & Reply at iii, 22 (FCC filed FCC Feb. 24, 1997) (internal quotations omitted) ("BT/MCI Reply").

networks, to provide wholesale discounts to resellers, and to guarantee dialing parity for competitors' customers. See Comments at 4-7. Similarly, MCI and BT boast that they will not be able to engage in cross-subsidization because BT's interconnection prices may be subject to price caps "over the next four years." BT/MCI Reply at 12 n.26. This claim, too, merely serves to emphasize that the Bell companies have long been subject to more stringent regulation (including federal price caps that do not afford them the same flexibility that the proposed U.K. regime would allow).⁴

Every U.K. regulatory provision that MCI and BT have cited is matched or exceeded by details of the parallel U.S. provision. Moreover, many important U.S. provisions — including resale, unbundling and dialing parity requirements and the structural separation requirements of section 272 — have no U.K. counterpart. See Comments at 4-6, 11-12. Thus, if MCI is correct and current U.K. safeguards are adequate to rebut concerns about potential BT/MCI misdeeds and to remove any need to wait and see how BT/MCI would behave under more stringent requirements, BT/MCI Reply at 13, then the stronger U.S. safeguards also eliminate any need to wait before granting Bell companies interLATA authority.

MCI and BT also rely on concrete market experience to disprove opponents' "speculative" fears about BT's vertical integration. MCI and BT boast that they have been in alliance for more than two years "without any hint of favoritism or preference." BT/MCI Reply at 34 n.78. They argue that, although "inventive rivals" predicted that the alliance between MCI and BT in 1994 would lead to anti-competitive behavior, this speculation never materialized and "no

⁴ See Comments at 10-11 (comparing U.S. price caps with those proposed in Pricing of Telecommunications Services from 1997: OFTEL's Proposals for Price Control and Fair Trading ¶ 2.21 (Ex. 7 to Comments)).

complaint has been made to the FCC alleging discrimination by BT in favor of MCI.” *Id.* at iv, 5.

Based on this track record, they argue, regulators cannot assume “that such discrimination will occur in the future.” *Id.* at iv-v, 5.

If the Commission is willing here to accept market experience as a prediction of future conduct, it must do so also with respect to the Bell companies. The Bell companies have entered a variety of markets adjacent to local services since their divestiture by AT&T in 1984. In each case, Bell company entry has enhanced, rather than diminished, competition.

- NYNEX and Bell Atlantic have for more than a decade originated in-region, interLATA calls in two geographic corridors running from New York City and Philadelphia into New Jersey. NYNEX and Bell Atlantic do not dominate corridor traffic. MCI and AT&T acknowledge, for instance, that Bell Atlantic has no more than 20 percent of the corridor business⁵ and that Bell Atlantic’s corridor rates are as much as one-third lower than the large interexchange carriers’.⁶ Precisely because of this price competition from an in-region Bell company, MCI and AT&T asked the Commission for authority to reduce their long distance rates for customers in the corridors, while keeping them high where they do not face such competition.⁷
- Bell companies also have participated in cellular markets with no anticompetitive consequences. Because cellular carriers and interexchange carriers have similar

⁵ AT&T Corp.’s Petition for Waiver and Request for Expedited Consideration, AT&T Petition for Waiver of Section 64.1701 of the Commission’s Rules, CC Docket No. 96-26, at 3 (FCC filed Oct. 23, 1996) (“AT&T Waiver Petition”), denied, Order, Policies and Rules Concerning the Interstate, Interexchange Marketplace Implementation of Section 254(g) of the Communications Act of 1934, as amended; AT&T Corp.’s Petition for Waiver and Request for Expedited Consideration, CC Docket No. 96-61 (rel. Jan. 17 1997); MCI Comments, AT&T Petition for Waiver of Section 64.1701 of the Commission’s Rules, CC Docket No. 96-26, at 3 (FCC filed Nov. 18, 1996) (“MCI Comments”) (“fully support[ing]” AT&T’s arguments).

⁶ AT&T Waiver Petition Attachment A.

⁷ See AT&T Waiver Petition at 1, 5 (seeking to reduce prices and conceding that consumers in the corridors, unlike other areas, “benefit from the highest degree of competition possible”); MCI Comments at 1, 3 (following suit, “so that [MCI] likewise will be in a position to benefit consumers by being able to compete effectively against Bell Atlantic and AT&T”).

local interconnection requirements, Bell companies should have had essentially the same incentive and ability to act anticompetitively against rival cellular carriers as opponents claim they would have to act anticompetitively against other interexchange carriers in in-region states. Yet, this theoretical incentive has never had any actual anticompetitive impact. Cellular subscribership has soared to more than 42 million.⁸ Cellular bills have fallen by nearly 50 percent,⁹ and the Commission has confirmed "the infrequency of interconnection problems" between local exchange carriers and unaffiliated cellular providers.¹⁰ As the Commission has observed, "the wireless communications business is one in which relatively small, entrepreneurial competitors have often been as successful as . . . the BOCs."¹¹

- When the Bell companies sought permission to offer information services, competitors claimed that they would use their control of the local exchange to impede competition.¹² Following Bell company entry, however, the information services market has been one of the fastest growing segments of the U.S. economy.¹³ While the Bell companies have contributed to this growth, they have small market shares and have not in any way impeded competition.¹⁴

These and other examples of healthy competition by Bell companies (such as CPE sales and wireless long distance service) discredit not only the predictions of Bell company monopolization that preceded them, but also the similar predictions advanced by those who seek

⁸ Cellular Phones: Good Traveling Companion for the Holidays, Business Wire, Dec. 20, 1996.

⁹ See CTIA, The Wireless Fact Book 15 (Spring 1996) (average monthly bills dropped from \$96.83 in December 1987 to \$51.00 in December 1995).

¹⁰ Eligibility for the Specialized Mobile Radio Servs., 10 FCC Rcd 6280, 6293, ¶ 22 (1995).

¹¹ Applications of Craig O. McCaw and AT&T Co., 9 FCC Rcd 5836, 5861-62, ¶ 38 (1994), aff'd sub nom. SBC Communications Inc. v. FCC, 56 F.3d 1484 (D.C. Cir. 1995).

¹² See United States v. Western Elec. Co., 673 F. Supp. 525, 565-67 (D.D.C. 1987) (citing comments of Dun & Bradstreet and Metscan), aff'd in part, rev'd in part, 900 F.2d 283 (D.C. Cir. 1990).

¹³ U.S. Commerce Dep't, U.S. Industrial Outlook 1994 25-1.

¹⁴ See Bell Operating Co. Safeguards, 6 FCC Rcd 7571, 7619-21 & n.201 (1991).

to thwart interLATA entry through section 271. If the Commission accepts BT's and MCI's assertions that their partial alliance since 1994 disproves theoretical predictions of anticompetitive conduct following their complete merger, it must give at least as much weight to a dozen years of evidence of beneficial Bell company participation in adjacent markets.

II. THE COMMISSION SHOULD REJECT MCI'S ATTEMPT TO EXPLAIN AWAY ITS CONTRADICTORY OPPOSITION TO BELL COMPANY INTERLATA ENTRY

Although its arguments in support of the merger necessarily support Bell company interLATA entry, MCI nevertheless seeks to distinguish its application to become vertically integrated with the incumbent British local exchange carrier from Bell company requests to integrate local and interexchange services as a competitor to BT/MCI. MCI does not argue that the potential benefits of its merger match those of Bell company entry into in-region long distance. Nor does it question that Bell companies operate in local markets that are more stringently regulated and more open to competition than U.K. markets. Instead, as part of its effort to delay an infusion of Bell company competition into long distance, MCI offers three purported distinctions between this proceeding and section 271 proceedings. None has merit.

1. MCI argues first that the merger should not have to adhere to the "detailed standards in Section 271." BT/MCI Reply at 32. This, of course, is no response at all, because no one claims that the merger should be subjected to the many requirements of section 271. While sections 271(d)(3)(A) and 271(d)(3)(B) condition interLATA entry upon the Bell company's meeting detailed interconnection and unbundling requirements and providing local and long distance service through separate corporate entities subject to accounting and non-discrimination rules, sections 214 and 310 contain no such requirements. For this reason, our

initial Comments were limited to only one of section 271's provisions: section 271(d)(3)(C)'s requirement that interLATA entry "is consistent with the public interest, convenience, and necessity." 47 U.S.C. § 271(d)(3)(C); see Comments at 1.

With respect to the public interest inquiry, the test here and in the section 271 context is identical: the Commission must determine whether approval of the respective applications will serve the "public interest, convenience, and necessity." 47 U.S.C. § 271(d)(3)(C); 47 U.S.C. § 310 (d); 47 U.S.C. § 214(a); 47 C.F.R. § 63.18. Moreover, to the extent that MCI seeks to distinguish between the public interest inquiries in the two different contexts, the public interest inquiry will be more clearly satisfied in the section 271 context than here. Section 271 imposes many specific requirements to ensure that local U.S. markets are open and that Bell companies cannot engage in discrimination or cross-subsidy, and it charges the Commission with enforcing those requirements to prevent competitive harm. See 47 U.S.C. § 271(d)(1), (d)(2) (requiring Commission to ensure compliance with the interconnection, non-discrimination, and accounting requirements of sections 251, 252, and 272, including structural separation). The fact that Bell companies will provide interLATA services subject to these congressionally mandated safeguards removes any doubt that their entry will serve the public interest. No comparable statutory safeguards apply to the BT/MCI merger.

2. MCI next asserts that "local competition in the UK is far more substantial than in the US." BT/MCI Reply at 33. But it misses the significance of this alleged "key difference." Id. If competition is indeed healthy in the United Kingdom, where barriers to local entry are higher and regulatory oversight is weaker than in the United States, then competition surely will thrive under the stringent rules of the 1996 Act. In other words, if it does anything, MCI's

comparison of levels of competition in U.K. and U.S. local markets discredits its position elsewhere that regulators must wait until a specified amount of competition actually develops in the local market before allowing Bell companies to provide in-region interLATA services — a position that is, in any event, contrary to the express terms of the 1996 Act.¹⁵

3. Finally, MCI tries to distinguish BT's situation from that of the Bell companies by noting that BT is seeking to enter long-distance markets outside its home region, while Bell companies are seeking in-region interLATA entry. BT/MCI Reply at 33-34. This assertion comes after 31 pages of arguments that BT cannot use its market power in the United Kingdom to the detriment of U.S. companies seeking to originate international calls in that country. BT/MCI Reply at 1-31. And the focus of the preceding 31 pages is not misplaced. The Commission's public interest standard "require[s]" BT and MCI "to demonstrate that effective opportunities exist" for U.S. competitors in U.K. international markets. Market Entry and Regulation of Foreign-Affiliated Entities, 11 FCC 3873, 3890-91, ¶ 45 (1995). The Commission's inquiry focuses on whether the U.K. markets for local, intercity and international services are sufficiently open, and U.K. regulatory safeguards sufficiently strong, to ensure fair interconnection for U.S. carriers seeking to originate international calls within BT's formerly monopolized service area. See Comments at 1-2 (discussing 11 FCC at 3893, ¶¶ 50-51, 3894,

¹⁵ See, e.g., Comments of MCI Regarding the Requirements for InterLATA Entry Under Section 271, Investigation Regarding U S West Communication Inc.'s Compliance with Section 271 of the Telecommunications Act of 1996 with Respect to Provision of InterLATA Services Originating in Minnesota, Dkt No. P-421/CI-96-114, at 24 (Minn. Pub. Util. Comm'n filed Nov. 25, 1996) ("a BOC's satisfaction of the checklist does not prove the existence of real competition") (Ex. 1 to Comments); MCI, The Effects of BOC Long Distance Entry on Competition in Local and Long Distance Markets, at 8 (DOJ filed Dec. 13, 1996) ("Regulators cannot effectively prevent the BOCs from acting on . . . anticompetitive incentives") (Ex. 2 to Comments).

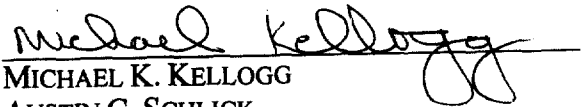
¶ 54, 3897, ¶ 61). These issues are directly analogous to the issues the Commission will address under the public interest component of section 271.

CONCLUSION

BT and MCI's Reply, like their initial Application, confirms that if their proposed merger serves the public interest, then so will Bell company interLATA entry. It would make no sense to allow a foreign carrier to buy its way into U.S. markets by acquiring an incumbent provider, while excluding Bell companies from injecting new, domestic competition.

We could, as MCI so often does in similar situations, oppose new entry by BT into U.S. markets or seek to impose onerous conditions upon it. That, however, would be hypocritical. Instead, we simply ask that the FCC not use a double-standard, by reviewing the BT/MCI merger under one "public interest" test while applying a wholly different "public interest" test to Bell company interLATA entry. Instead, the FCC should announce its support for the principle that all new entry promotes competition and serves consumers and is, therefore, in the public interest.

Respectfully submitted,


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March 17, 1997

CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of March, 1997, I caused copies of the REPLY COMMENTS OF BELLSOUTH CORPORATION, PACIFIC TELESIS GROUP, AND SBC COMMUNICATIONS INC. to be served upon the parties listed on the attached service list by first-class mail, postage prepaid.


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